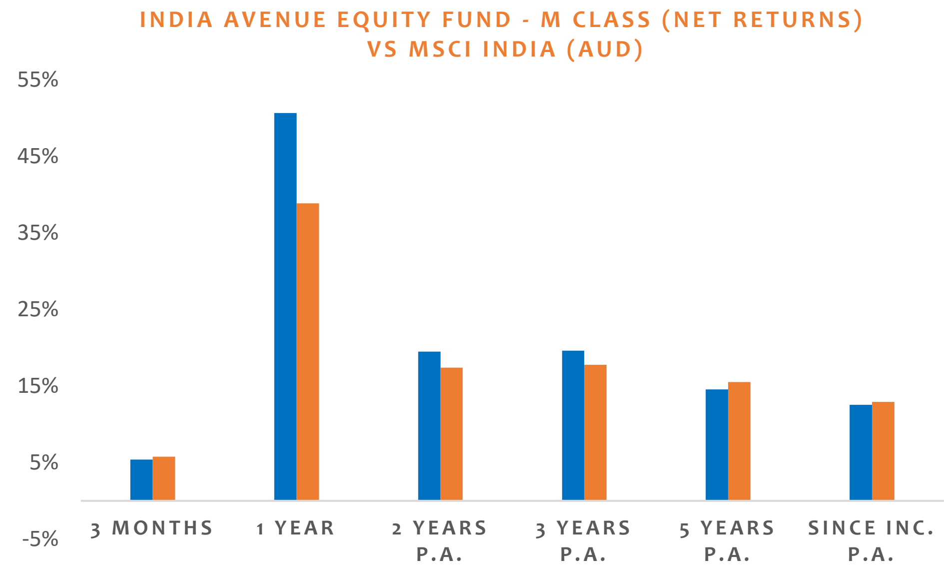
31 January 2022

# Avenues

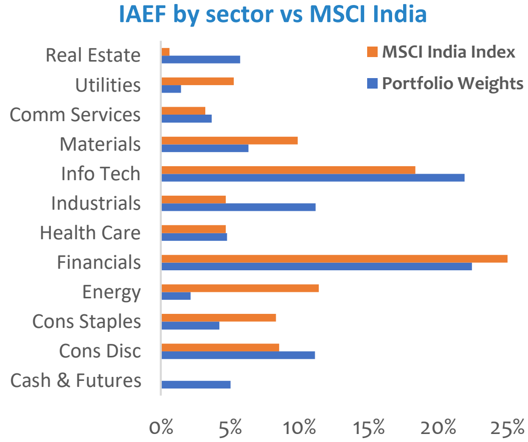
India Avenue Investment Management

## Fund Returns and Characteristics: 31 January 2022




| M Class | 3 months | 1 year | 2 years | 3 years | 5 years | Since Inception |
|---|---|---|---|---|---|---|
| **Fund Returns (net)** | **5.39%** | **50.62%** | **19.47%** | **19.59%** | **14.54%** | **12.52%** |
| MSCI India (AUD) | 5.77% | 38.82% | 17.39% | 17.76% | 15.50% | 12.91% |
| **Relative Performance** | **-0.38%** | **11.80%** | **2.09%** | **1.82%** | **-0.96%** | **-0.39%** |

### IAEF by sector vs MSCI India




*Source: MSCI*

| Top 10 Stocks | Sector | Weight |
|---|---|---|
| Bajaj Finance | Cons Fin. | 4.33% |
| HCL Tech | IT | 4.08% |
| Tata Cons Services | IT | 3.73% |
| Redington India | Elec. Equip | 3.37% |
| Infosys | IT | 3.15% |
| Brigade Enterprises | Real Estate | 3.02% |
| Hitachi Energy | Elec. Equip | 2.85% |
| HDFC | Housing Fin. | 2.67% |
| Aurobindo Pharma | Pharma | 2.64% |
| Avenue Supermarts | Retailing | 2.61% |

| H & L Class | 3 months | 1 year | 2 years | 3 years | Since Incept H Class (06/04/17) | Since Incept L Class (19/04/21) |
|---|---|---|---|---|---|---|
| **H Class (net)** | **5.29%** | **49.70%** | **18.84%** | **18.99%** | **11.51%** | |
| **L Class (net)** | **5.47%** | **-** | **-** | **-** | | **43.07%** |
| MSCI India (AUD) | 5.77% | 38.82% | 17.39% | 17.76% | 12.87% | 35.69% |

***Past performance is not an indicator of future performance. Above returns are calculated based on the exit price of 31st January 2021, net of fees and assuming reinvestment of dividends. Returns after 1 year are annualised. The only difference between the M, H and L class are the management and performance fees charged. The underlying investments of each class are identical.***

## Fund Objective

**The India Avenue Equity Fund is a registered, unlisted unit trust, which invests in listed companies trading on Indian stock exchanges or on other exchanges, with significant exposure to India's economy. The Fund aims to outperform its benchmark in AUD terms, after fees and over rolling 5-year periods**

## Fund Rating

**Lonsec Rating: Recommended***

## Fund Facts

| | |
|---|---|
| **Fund Manager** | **India Avenue Investment Management** |
| **Portfolio Manager** | **Muguthan Siva** |
| **Structure** | **Registered Investment Management Trust** |
| **Inception Date – M Class** | **6th September 2016** |
| **Fund Size** | **A$71.27m** |
| **NAV** | **M Class 1.8194<br>H Class 1.7994<br>L Class 1.4357** |
| **Base Currency** | **AUD** |
| **Responsible Entity** | **Equity Trustees Limited** |
| **Custodian** | **Apex / BNP Paribas** |
| **Auditor** | **KPMG** |
| **Benchmark** | **MSCI India in AUD** |
| **Distribution Frequency** | **Yearly 30th June** |
| **Management Expense Ratio** | **M Class 1.10% p.a.<br>H Class 1.50% p.a.<br>L Class 0.95% p.a.** |
| **Buy-Sell Spread** | **0.35% / 0.35%** |
| **Performance Fees** | **Excess Return above Benchmark** |
| **M & H Class** | **10%, high watermark** |
| **L Class** | **15%, high watermark** |
| **FY21 Distribution** | **0.0 cpu** |

# Avenues

## About India Avenue

**India Avenue Investment Management (IAIM) is a boutique investment company focused on providing investment solutions for clients in Australia and New Zealand who seek exposure to India's growth potential through its capital markets.**

**The India Avenue Equity Fund is managed by the team at IAIM. The Fund has a bias towards companies which are experiencing strong growth driven by India's fundamentals. The Indian economy's robust ecosystem provides a tailwind for these companies which benefit from participating in growing addressable markets. Additionally, if they have sound management and a strong business moat, it makes a compelling case for long-term investment.**

## Fund Identifiers

| Identifiers | ARSN | ISIN | APIR Code |
|---|---|---|---|
| M Class | 611374586 | AU60ETL04826 | ETL0482AU |
| H Class | 611374586 | AU60ETL04784 | ETL0478AU |
| L Class | 611374586 | AU60ETL28148 | ETL2814AU |

| | Citi Code | Morningstar |
|---|---|---|
| M Class | NFCK | 41512 |
| H Class | NF2H | 41828 |
| L Class | | 44362 |

## Contact Details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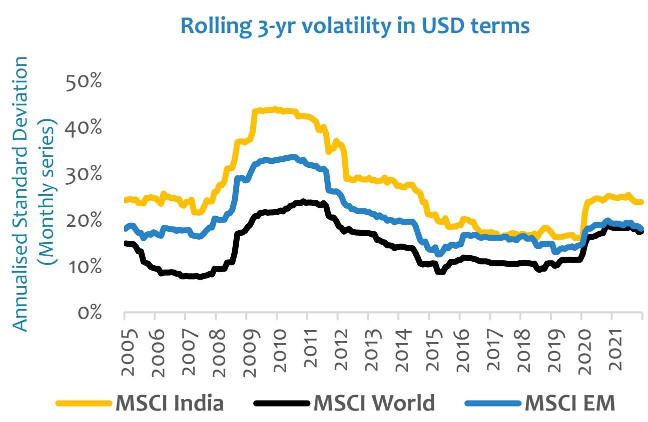
## Fund and Market Commentary

The India Avenue Equity Fund achieved a return of 50.62% for the year ending 31st January 2022, outperforming its benchmark, MSCI India (AUD) by 11.80%. The fund's outperformance over the last 12 months continues to be driven by sector (overweight Information Technology, Industrials and Real Estate and underweight Financials) and stock selection which have been positioned favourably when compared to the benchmark.

However, over the last quarter the fund has underperformed, driven particularly by the last two weeks in January 2022, as investors increasingly moved to a more cautious stance in the face of a more 'hawkish' tone from the US Federal Reserve which may result in interest rate rises and withdrawal of liquidity. The typical weakness in the AUD in a risk-off event nevertheless saw investors in the fund achieve a slightly positive return for the month of January 2022 in AUD terms, despite falling by 2.7% in INR terms. After a continuation of strong flows in the first two weeks of January 2022, foreign investors, in particular, started paring back their equity holdings broadly. Over January close to US$4.8bn was withdrawn by FII investors. Local investors continue to support markets to the tune of a US$2.6bn of buying to offset some of the negativity cast upon equity markets. This pattern has led to a substantial change over time in the volatility and behaviour of India's equity markets.




Market volatility has slowly been falling over the last decade. It is still prone to some spikes but has generally closed the gap to Developed Market and broader Emerging Market benchmark volatility. One of the drivers of this is increased investment from local investors over time as assets/savings/wealth shifts from physical to financial.

***Source: India Avenue Research, Refinitiv***

### Contribution to Return – 12 months

| Top 10 Stocks | Contribution |
|---|---|
| Indian Energy Exchange | 4.63% |
| Redington India | 3.77% |
| Bajaj Finance | 2.69% |
| Hitachi Energy | 2.30% |
| Infosys | 1.84% |
| Brigade | 1.83% |
| Avenue Supermarts | 1.55% |
| ICICI Bank | 1.43% |
| Tanla Platforms | 1.43% |
| Motherson Sumi Systems | 1.40% |

The 12-month attribution illustrates the philosophy of our fund. Several of the contributors to return over the last 12 months have been non-index constituents i.e. India Energy Exchange, Redington India, Hitachi Energy, Brigade Enterprises and Tanla Platforms.

Stocks contributing to returns over time are not simply index heavyweights that contribute due to their weighting in the benchmark.

India Avenue
Investment Management

# Avenues

## India Macro & Micro News

Both India and Australia are working towards an interim free trade agreement (FTA). Ongoing negotiations are expected to culminate in a Comprehensive Economic Co-operation Agreement (CECA) which covers trade in goods, services and investment. The agreement will initially be aimed at liberalising tariffs on certain goods e.g. Australian wines. The comprehensive agreement will include areas of focus like Education, Energy & Resources, Logistics & Transport and Tourism.

Indian start-ups have raised US$7.2bn in the fourth quarter of 2021; this was 18% greater than the prior sequential quarter. A total of 14 new unicorns were added to the start-up ecosystem in the fourth quarter of 2021. India has seen a strong acceleration in the case of its startup ecosystem. In 2022 in 40 days there are already a further 8 Unicorns.

The RBI kept interest rates steady at 4% while maintaining an accommodative policy stance. It was the 10th consecutive time that the Central Bank of India maintained a status quo for interest rates, placing the need of growth at the forefront. It is likely that the next Monetary Policy Committee (MPC) meeting in April may see a change of stance, particularly considering the rising inflation globally.

According to a survey by VC firm Stellaris and IFC, India's AI and SaaS start-ups are positioned to create market value of more than US$500bn by 2030 and employment for over 4.5m people. India has a huge pool of data scientists and is backed by adequate risk-capital to facilitate acceleration.

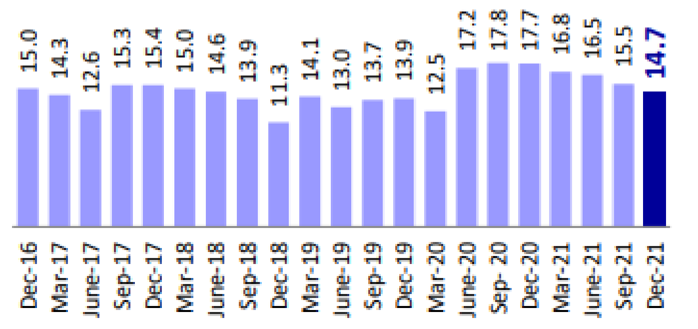
India has declared that it will provide 500,000 free e-tourist visas to launch inbound travel and is now opening up for international travel in a calibrated manner.

***Source: IBEF.org***

## India's 3rd Quarter earnings FY22 – the story so far

With a substantial proportion of companies reporting earnings already, there are some evident trends. Revenue growth from a low base is over 30% and profit after tax growth is 18% (excluding Tata Motors – which recorded a bigger loss than expected). Earnings so far have largely met with expectations despite inflationary pressures from rising commodity prices. Financials reported strong results on the back of improving asset quality as well as a pick-up in loan growth. IT companies continue to report strong top line and bottom-line growth given the continued focus on capex in this space on a global basis.

**EBITDA Margins – 120 companies which have reported**




Source: Company, MOFSL

Margin pressure is evident over the last 15 months with a 300bp retraction from peak margins post COVID-19. Sectors impacted are Autos, Chemicals, Cement and Consumer.

India's valuations today stand at close to 19.5x one-year forward based on consensus expectations of 20% EPS growth for FY23.

## Union Budget FY22-23

The Budget focused on economic growth over fiscal consolidation through a high allocation of capex towards infrastructure and policy support to emerging sectors such which increase India's self-reliance – a point stressed upon by the Government post COVID-19. These sectors include artificial intelligence, geospatial systems and drones, semiconductors, energy transition to renewables and its funding.

The focus on capex may lead to the beginning of a positive virtuous cycle which should sustain real GDP growth forecasts of 8.0-8.5% for FY23 and beyond. The key drivers will be Infrastructure Development (public sector), manufacturing driven by import substitution and export opportunities emanating from supply chain diversification, renewables driven by climate change requirements and digital infrastructure. The Budget extended the sunset clause of lower manufacturing tax rates to the end of FY24 (at 15%) as India's aims to leverage from a global focus on broader supply chains.

Some Negatives

FY22 and FY23 Fiscal deficit is targeted at 6.9% and 6.4% respectively. This will lead to rising net borrowings, which along with the high price of oil and rising global interest rates will keep pressure on bond yields. There was talk of the inclusion of Indian bonds in the Global Bond Indices pre-budget but didn't eventuate – a negative for funding and cost of funds.

# Avenues

## Our Focus and Experience

**The founders of IAIM worked together at ING Investment Management in Australia and India over a period spanning from 2003-2013.**

**Our rich experience in investing in Indian equity markets is aided by our local network (fund managers, stockbrokers, corporates and other market participants in India).**

**This, alongside our singular focus on India as an investment region, provides our clients with significant insights on investing in this fast-growing region.**

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## Brigade Enterprises – Benefitting from Structural and Cyclical Forces

Two years ago India's Real Estate sector was reeling from the impact of *Demonetisation* and the significant shift from physical to financial assets. The industry was impacted by the need for increased transparency, lack of demand, landlocked land banks, delayed projects and lack of funding as well as a more cautious approach taken by NBFC's towards financing.

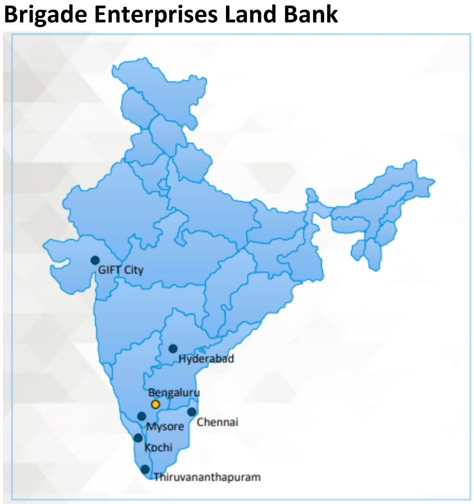
However changes started to take place with Real Estate reform introduced in 2016 (Real Estate Regulatory Authority – RERA) and referred to as the "Real Estate Regulation & Development Act". The Act has been progressively updated and includes a focus on:

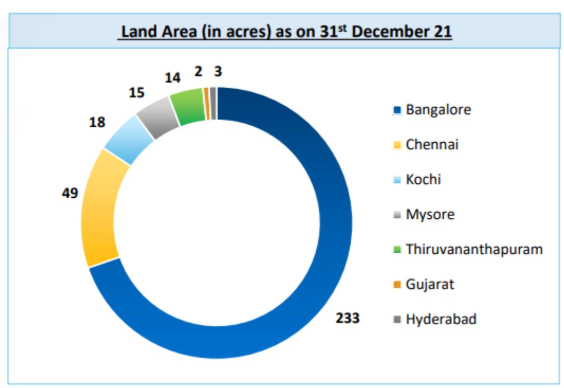
- Protecting buyers from lopsided property transactions and improving transparency
- Reduced risk of insolvency and greater adherence to timelines for projects
- Standardisation and enhance project efficiency and quality

As a result, several marginal players in industry became uneconomic, leaving the larger players behind after consolidation. Additionally, liquidity eased, and interest rates fell providing some respite for stronger players and providing momentum for demand. As salaries hikes occurred, particularly in the IT industry (dominant in the South of India in cities like Hyderabad, Bengaluru and Chennai), the backlog of inventory levels started moving post COVID-19.

Brigade is a leading property developer in South India (Bengaluru 74%, Chennai 16%) with a development portfolio of A-Grade properties. Their business spans Residential, Lease Rentals and Hospitality and has maintained an EBITDA margin of 26-28% over the past six years. The company has substantial operating leverage to the improving cycle for Real Estate.

**Brigade Enterprises Land Bank**




| Total Land Area (Acres) | Cost of Land (INR Mn) | Amount Paid (INR Mn) | Balance Payable (INR Mn) |
|---|---|---|---|
| 334 | 9,912 | 6,246 | 3,666 |

***Source: Brigade 3rd Quarter 2022 Presentation***

The company has established a high-quality land bank and has paid back significant levels of debt at lower interest rates to place it in an enviable position as its Hospitality (occupancy has risen from 41% to 62% over the last 6 months) and Lease Book rebound. With a strong pipeline of projects, high quality offerings, economic rebound, falling debt levels and interest costs as well and a structural improvement in Real Estate, Brigade is well placed to capitalise on rising demand from higher salaries, lower cost of funding and significant urbanisation still to come. **The stock is not one of MSCI India's constituents.**

# Avenues

## Our Philosophy

**IAIM's investment philosophy focuses on three key aspects:**

1. **India will be a high GDP growth region relative to other regions given its strong fundamentals.**
2. **Equity markets in India are relatively inefficient, allowing active fund managers to benefit from their research and knowledge relative to passive investors.**
3. **Locally based asset managers in India have an advantage relative to global investors when it comes to investing in Indian equities due to their knowledge of the local laws, business principles and overall ecosystem.**

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*India Avenue Equity Fund's Target Market Determination is available on our website:*

*www.indiaavenueinvest.com/our-fund*

*A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.*

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